SPEECH

OF

HON. JOHN SHERMAN, OF OHIO,

ON

TAXATION OF BANK BILLS;

DELIVERED

IN THE SENATE OF THE UNITED STATES, JANUARY 8, 1863.

WASHINGTON:
PRINTED AT THE CONGRESSIONAL GLOBE OFFICE.
1863.

SPEECH.

The Senate having proceeded to the consideration of the ill taxing bank bills and all fractional currency—

Mr. SHERMAN said:

Mr. PRESIDENT: I know it is difficult in the midst f exciting events to gain the attention of the Sente to a dry question, full of difficulty and details; et everything affecting the currency of the couny is now so sensitively felt, and involves so inmately the safety and welfare of the country, that know the Senate will pardon me for discussing e policy of taxing the circulation of bank bills r a little while. The subject has been twice subitted to us by the Secretary of the Treasury. e regards this measure as of the highest importce. In his annual report one year ago, and so in his recent report, he has stated his view of is proposition. He believes that the existing nk circulation prevents, or embarrasses, the process of funding, by which alone the bonds of the nited States can be absorbed, and by which alone oney can now be obtained from the people. I ll not read the extracts from his report because ey are familiar, no doubt, to Senators.

At the last session of Congress, I submitted a asure somewhat similar to this, in the form of amendment to the revenue bill, but it was postned rather than defeated. The bill I now introce contains but two sections: the first proposes levy a tax of two per cent. on the circulation all bank bills; the second provides for a tax of per cent. on all fractional currency under one lar, issued by corporations or by individuals. ropose, in the first place, to examine this proption purely as a question of taxation, before ing its effect upon the currency of the country. n the outset, it is necessary for us to remember distinction between the ordinary process of king and the issuing of bank bills. The business of banking proper consists in loaning money, discounting bills, facilitating exchanges of productions by the agency of commercial paper, and in receiving and disbursing the deposits of individuals. The issue of bank bills is an exclusive privilege, conferred only upon comparatively few corporations. It is a privilege that an individual cannot enjoy. No person can issue his bills in the form of paper money without an express corporate franchise, granted to him either by a general banking law or by an act of incorporation. All the business of banking may be exercised by private individuals, except this franchise. There is no reason why any one may not carry on all the business incident to banking, except this one of issuing bills to circulate as money. Indeed, the largest banking houses in this country and in the world do not exercise the privilege of issuing bills. We know that the Rothschilds, the Barings, Mr. Peabody, one of our own distinguished citizens in England, and our heaviest banks in this country, do not exercise this privilege. The Bank of Commerce of New York, with a capital of $9,000,000, has now less than $2,000 of circulation; and nearly all the leading banks of the city of New York, comprising the majority of the banking capital of the State of New York, issue a comparatively small amount of bills. It is also true that the strongest banks issue the least number of bills, and the weakest banks support themselves and make profit by issuing the largest quantity of bills. Mr. Chase, in his report, states this proposition very plainly. I will read an extract from it:

"Circulation commonly is in the inverse ratio of solvency. Well founded institutions, of large and solid capital, have in general comparatively little circulation; while weak corporations almost invariably seek to sustain themselves by obtaining from the people the largest possible credit in this

form. Under such a system, or rather lack of system, great fluctuations and heavy losses in discounts and exchanges are inevitable; and not unfrequently, through failures of the issuing institutions, considerable portions of the circulation become suddenly worthless in the hands of the people."

In the West, where capital is not abundant, we have suffered more by a system of banking operations than from any other financial cause. Banks have been founded often without capital, or upon fictitious capital; sometimes upon bonds purchased upon credit; and then, after they had spread their notes all over the country, filling the pockets of the people with a worthless currency, they suddenly explode, and the note-holders suffer the entire loss. It is true that in the older States, where capital is more abundant, they have a better system of banking; but, after all, it will be found that the weakest banks issue the most notes. The strongest banks do without this privilege, or use it lightly. All the leading banks in this country which have ample capital may dispense with the privilege of issuing bank bills with but little inconvenience; while those of small capital, dependent upon their circulation, may very properly give way to private bankers, who carry on their operations entirely with other currency and upon individual responsibility.

The business of banking proper is very heavily taxed by our excise law. It will be found by reference to the tax bill that any commercial paper, all the checks, drafts, orders, bills of exchange, foreign and inland, protests, certificates, bonds, powers of attorney—every instrument that is used in the ordinary process of banking is heavily taxed, while bank bills are not taxed at all. This is a discrimination, it seems to me, that is very unjust.

When a private banker undertakes to do business, he has first to apply for a license to carry on the ordinary operations of banking, and for that license he pays $100. But a bank of circulation is expressly exempted from the necessity of procuring a license. While all the ordinary functions of banking, all those that are useful to the people, and which are purely voluntary—the operations of loans, discounts, exchanges, and deposits—are taxed for license, the business of issuing paper money, which may alone be done by corporations chartered under general or special laws, pays no license. I will read the clause:

"Bankers shall pay $100 for each license. Every person shall be deemed a banker within the meaning of this act who keeps a place of business where credits are opened in favor of any person, firm, or corporation, by the deposit or collection of money or currency, and the same or any part thereof shall be paid out or remitted upon the draft, check, or order of such creditor, but"—

Mark you—

"*but not to include incorporated banks or other banks legall[y] authorized to issue notes as circulation.*"

All other banks, and bankers, whether they are incorporated or not, whether they are associated together or not, have to get a license; and there is an express reservation and exception in favo[r] of banks authorized to issue paper money. Now why is this? Is there any reason for it? I thin[k] there is none.

Again, sir, take the stamp taxes. Every com[-] mercial instrument must be stamped. If I issu[e] my note for $100, I must place on that note [a] stamp in order to make it valid. I then must pa[y] interest on that note. If I invest the proceeds i[n] any kind of business, I must pay a tax upon tha[t] business, first, in the form of a license, and the[n] in the form of a tax upon the production. Afte[r] that, I must pay a tax upon my profit. The stam[p] tax attaches to every form of commercial instru[-] ment. Why should it not attach to a bank bill[?] And yet, by another provision of the revenue law[,] which I will read, banks of issue are expressl[y] exempted from this tax. In the section provid[-] ing for stamp duties occurs this clause:

"Bill of exchange, (inland,) draft, or order for the pa[y-] ment of any sum of money exceeding twenty and not e[x-] ceeding one hundred dollars, otherwise than at sight or [on] demand, or any promissory note, *except bank notes issu[ed] for circulation*, for a sum exceeding twenty and not excee[d-] ing one hundred dollars, five cents. Exceeding $100 an[d] not exceeding $200, ten cents," &c.

Now, why should there be this discriminatio[n?] I, as an individual, must pay these stamp dutie[s;] a banker doing business must pay them; a perso[n] who has embarked his credit in the most nece[s-] sary pursuit, having no special privileges wha[t-] ever, must attach a stamp to his note when [he] issues it in any form, whether in the form of [a] certificate, a promissory note, a bill of exchang[e,] or in any of the multiplied forms of commerci[al] paper. There is no way in which he can issu[e] his note, whether bearing interest or not, wheth[er] payable on demand or not, in which it is not tax[ed] by the Government; and yet a note issued by [a] bank incorporated with special privileges is e[x-] pressly exempted from the operation of this la[w.] Why is this, Mr. President? There is no reaso[n] for it.

The only tax levied by this act on banks of ci[r-] culation is the tax of three per cent. on the n[et] income, and that tax is deducted from the divide[nds] to the stockholders. I venture the assertion th[at] there is no interest in this country so lightly tax[ed]

as banks of circulation. Three per cent. on the net income: how much is that? It is only fifteen cents on $100 of circulation. Contrast the tax imposed on an ordinary manufacturer with the tax imposed on a bank. A man is engaged in the business of production, that which adds to the wealth of the country; he is converting the raw material into something necessary to sustain life; what process of taxation is he subjected to, and very properly, for I do not object to the taxes? He first has to get a license for his employment; he then invests his capital in real estate or machinery, which is taxed. If he issues his note, check, or other commercial paper, he must attach a stamp to it; he must then pay three per cent. on the entire product of his business—not three per cent. on his profits, but three per cent. on his entire production, often greater than his capital; and if he should make any profits, he must pay three per cent. on his profits. That is the process of taxation to which we compel a manufacturer to submit.

How is it with the bank of circulation? The bank of circulation carries on its mammoth business without paying any license; it issues its note without paying any stamp duty; it circulates that note without interest; it does not pay that note in specie; it does not pay three per cent. on its production, its manufactured article of paper money. It only pays three per cent. on its profits. Nor is that all. It is not three per cent. on the gross profits of the bank, but three per cent. on the net profits of the bank; after every expense that may be conjured up, salaries, fees, employments, is deducted from the profits, the balance is subjected to the insignificant tax of three per cent. This is all the revenue paid by such banks for their exclusive franchise. Even that little tax, by the express provisions of the law, may be deducted from the dividend of the stockholder; and the stockholder does not pay the tax twice, because this is deducted from his own income tax. Mr. President, I can run this comparison further, and show that in all the employments of life there is a discrimination in favor of the bank of circulation. It is not in favor of corporations, because corporations are heavily taxed by this law. Let us look. Railroad companies pay three per cent. on the gross receipts from passengers. The receipts of a road for passengers are sometimes one fifth of its capital stock. Railroad companies pay three per cent. on the gross receipts from passengers, without any deduction. Insurance companies pay one per cent. on their gross receipts, and, as was stated in debate here last spring, sometimes the annual receipts of an insurance company are often equal to the full amount of the capital out of which they have to pay all their losses. So here is a tax on insurance companies, confessedly among the most useful institutions in the country, of one per cent. on their gross receipts, which is equivalent to ten per cent. on their profits. Then how is it as to salaries? We, as Senators, receive $3,000 a year, and we pay a tax of three per cent. on our gross salary, and there is no deduction made for our very necessary expenses, though I suppose most of us have none of the $3,000 left when we go home. The tax is levied on the gross salary.

I have shown you how it is with manufacturers. Now, how is it with a private citizen? After each of us has paid all the taxes assessed upon our property and employments, the taxes on stamps and licenses, we have to pay a tax of from three to five per cent. on our gross income over six hundred dollars. And yet, although all classes of the community—corporations, citizens, private persons, men, women, and children—bear with patience this heavy rate of taxation, banks of circulation having the exclusive privileges, having the franchise of making money and issuing promises to pay without paying interest upon them, pay but three per cent. on their net profits from circulation, and that is deducted from the individual stockholders. I say this is an unequal, unjust system of taxation, and we ought to correct it.

There are reasons which, in my mind, are very potent why the taxes on banks of circulation should be heavier instead of lighter than those on other employments. The force of them, I think, will be perceived when I state them. We know very well that the profits on the issue of bank notes are now vastly increased. I have a statement before me which shows that the average profits of the banks of the State of New York, in the last year, were twelve and a half per cent.—a very heavy profit. This profit is this year greater than usual. We all know that the business created by the war, the unusual activity in commercial credits, has been very profitable to the banks.

But that is not all. The burdens imposed by their charters upon the banks have been lessened by the suspension of specie payments. When a bank had to keep in its vaults coin to the amount of one third of its circulation in order to redeem that circulation, when it was liable at any day to be called upon for the redemption, in gold and silver, of every dollar of its circulation, that was

a burden which very much lessened the profits. But now there is no such liability, and there is no such responsibility. Whether right or wrong, we know that all these banks have suspended specie payments, and now practically put upon the people their currency without paying either principal or interest. I say, therefore, they ought to be taxed more heavily than other employments in life. Why, sir, I remember very well—and some of the Senators here remember it also—an interview which was sought by the bankers of our chief commercial cities—all of them intelligent and patriotic men—with the Secretary of the Treasury, to which they invited the financial committees of the two Houses to hear their proposition for carrying on the financial operations of this Government. We all went to the office of the Secretary of the Treasury, and the proposition was there made that the United States should issue no paper money whatever; that the specie clause, as it is called, of the sub-Treasury law should be repealed; and that we should carry on the war upon the basis of the paper money of the banks, legalizing the suspension of specie payments, and that the Government should issue no paper except upon an interest of six per cent., or higher, if the money markets of the world demanded more. That was their plan of finance—the plan substantially adopted in the war of 1812, and which has been condemned by every statesman since that time—a plan of carrying on the operations of this great Government by a series of associated banks over which we had no control; who could issue money without limit so far as our laws extended; and by which the Government of the United States, in this time of peril, should issue its notes always bearing interest, and the banks should be allowed to issue their notes almost without limit, without interest, and without any responsibility for the principal. That was the scheme presented to us by those very intelligent gentlemen.

But, Mr. President, what are the objections to this tax? for this subject has been conversed about, and I bring the matter to the attention of the Senate now, in order that we may anticipate these objections, and excite others, if they exist. It is objected that this tax interferes with vested rights. If I understand it, all the taxes that are now levied by the Government are to sustain and maintain vested rights in property, liberty, and life. They are not to interfere with vested rights. Why, sir, every private citizen holds his property subject to the power of taxation, and Congress must designate the objects of taxation. There is no limit to the power of the Government to tax, except that the taxes must be uniform throughout the United States. When, after a man buys a farm, a new tax is imposed upon it, as a matter of course that impairs to some extent the value of the farm. And is the franchise of a corporation more sacred property than the franchise of an individual, the right which he possesses under the laws to hold his land as property? No at all. All these corporate franchises are held subject and subordinate to the power of taxation in Congress, which is sometimes necessary to be exercised in the most potent manner in order to maintain the Government. The States cannot by an act of incorporation place their property beyond the power of Congress. A State may, by law, make a contract with individuals which it cannot impair by taxation; but it cannot thu affect the power of Congress.

But it is said this tax discriminates against banks Every tariff and revenue act discriminates in th objects of taxation. Look over your tariff bills you will find a multitude of taxes. The law tha we passed at the last session discriminates betwee the various employments of life; it has a multi tude of taxes, some higher, some lower. Th only limitation upon the power of Congress o that subject, is, that the taxes must be uniform that is, a tax that applies in Vermont must also ap ply in Louisiana; a tax that is imposed on the peo ple of Ohio must also be imposed on the peopl of New York; but the objects of taxation may b selected by Congress according to its wisdom, an taxes may be higher on one business and lowe on another. And certainly, those gentlemen wh believe Congress rightfully exercises its power o taxation to protect domestic manufacturers, ca hardly object to the exercise of the same power o taxation when it is necessary to protect ourselve against the competition of paper money. If w can protect our industry against the competitio of foreign pauper labor, we surely may protect our selves against the incorporate agencies of States

The only question with me in this matter is wha rate of taxation ought to be levied. Is two pe cent. too high? I think it is not, because it is onl one third of the profit derived from the issue o paper money without interest, and the principa of which is not now paid in coin. The tax o fractional currency is upon a different basis. B an act passed at the last session it was made a crim for individuals and corporations to issue fractiona currency, and yet we know this statute cannot b

enforced. It ought to be repealed. One of the judges of the Supreme Court of the United States has cast doubts upon its constitutionality. I will not discuss that question now, but certain it is that a law which is openly violated by all classes of citizens ought not to remain upon the statute-book. When a law becomes so weak, so inoperative, that all men daily violate it with impunity, it should no longer be on the statute-book, but should be repealed. Yet how are we to check the issue of this fractional currency except by taxation? Everybody knows that the issue of shinplasters, as they are commonly and ignominiously but very properly called, is injurious in every sense and ought to be abolished. Now, however, all kinds of corporations are issuing them. We ought to get rid of them, but how can it be done except by taxation? The tax proposed by this bill is ten per cent. on fractional currency, which is probably about as much as or more than any one can make out of it, and which will amount really to a prohibition. This is a tax that can easily be collected. Fractional currency is issued either by corporations or by wealthy bankers scattered over the country. If they violate the law by issuing it, they usually have property, for without property their shinplasters would not be taken, and if they have property we can very easily, through the machinery we have now organized, collect the tax, even if it is a high one. Under the operations of this bill you will have a simple remedy, and I think an efficient one, to cure the issue of fractional currency, and at the same time to levy a reasonable contribution on banks of circulation.

Mr. President, I have thus stated this question simply as a question of taxation; but I should not be candid, I should not state my real purpose, if I did not say frankly that I have another and a much higher object than this to accomplish. The purpose of this bill is to induce the banks of the United States to withdraw their bank paper, in order to substitute for it a national currency, or rather the national currency we have already adopted. This, sir, is not a new object. I might read to you from volumes of speeches of our greatest statesmen, from the foundation of this Government, to show you that the establishment of a national currency, based upon the laws of Congress, either of gold or silver or some form of currency, has ever been regarded as indispensable to the prosperity of the country. When the currency can be regulated by a number of States, and under a multitude of laws, it is impossible to have a uniform, stable, and sound currency. The first Bank of the United States was expressly placed upon this ground by Mr. Hamilton and all those who supported it. The second Bank of the United States was placed on this ground by Mr. Madison, from whose message of December 5, 1815, I will read a short extract to show you that the statesmen of that time regarded the establishment of a uniform national currency as the highest object of legislation. Mr. Madison said:

> "It is, however, essential to every modification of the finances, that the benefits of a uniform national currency should be restored to the community. The absence of the precious metals will, it is believed, be a temporary evil, but until they can again be rendered the general medium of exchange, it devolves on the wisdom of Congress to provide a substitute which shall equally engage the confidence and accommodate the wants of the citizens throughout the Union."

This is a statement of the whole matter. When coin, the best national currency, is driven out of circulation by the existence of war or extraneous circumstances, then it is the duty of Congress to provide a substitute. Congress did at that time provide a substitute in the form of the Bank of the United States. All the State banks shortly afterward exploded, and almost the entire issue outstanding at the time this message was written fell as a loss to the people of the United States. The Bank of the United States did furnish, for a while, a stable currency. After its charter expired, the controversy was between gold and silver as a national currency, and paper money. Nearly all the statesmen of that time believed that it was necessary to have a national currency in some form, but there was a party in the country that believed the only true national currency was bullion—gold and silver coin. After a controversy that I will not review, because it is familiar, we know that the sub-Treasury system was finally adopted. The Government of the United States then was out of debt. The agency of a United States Bank was no longer necessary to sustain the public credit. The Government had no occasion to appeal to the people for credit, its debt was paid off, and there was a large surplus in the Treasury, which was distributed among the States. The object then was to establish a stable national currency. The State banks had failed to accomplish the purposes for which they were intended; their notes were mostly lying dead in the hands of the people, entirely worthless, useless either as a currency or as an investment. Therefore, I think wisely, the sub-Treasury system was adopted, and gold and silver coin was made the only national

currency. I believe that is the true policy. If peace were restored to this country, we ought as soon as possible to go back to the basis of gold and silver coin; but, in the mean time, we must meet the exigencies of the hour. Paper money is now a necessity. Gold and silver are hoarded. War always has, and in all ages always will, lead to the hoarding of the precious metals. Gold and silver flee from a state of war; they always have and always will. Every nation, in modern times, since paper money has been recognized as an agency, has resorted to paper money in times of trial. It was the old continental currency that carried our fathers through the Revolution; and, although it was afterwards depreciated and dishonored, I could show you, by the opinions of the eminent statesmen of the time, that but for that paper money the colonies would have been entirely overwhelmed by the British power. It was only by the use of paper money that England maintained her gigantic wars with Napoleon. At several periods during the wars of England with Napoleon, gold and silver were at a greater premium in England than they are now in this country. It was only by paper money issued substantially by the Government, or by the Bank of England, which is but an agent of the Government, that those wars were maintained.

I think, Mr. President, it is possible that the specie standard might have been maintained in this country, but in order to do it we should have had to resort to very desperate measures. This country might have carried on this war upon the basis of gold and silver coin, but, in order to have done this, we must have reduced every salary and every employment to the lowest possible limit. Instead of raising the pay of our soldiers, we should have had to reduce it. We should have had to depend upon conscription laws. Recognizing the great difficulties that surrounded us, we should have had to regard the whole property of the people of the United States and all their physical energy as the proper means to put down a rebellion, and we should have seized these by force. I am not sure now but that it would have been better to have met this struggle at the outset by the use of these strong and powerful measures, by a frank appeal to the people, by the passage of a strict conscription law, founded upon just principles, something after the model of the French law, by the reduction of all salaries, by an appeal to force, and by hurling the vast physical power of the loyal people of the United States against the rebels in arms against their authority.

But, Mr. President, we know that was not in accordance with the sense of our constituents; it was not in accordance with the sense of either House of Congress. You preferred on the other hand to pay liberally to all, and instead of reduction, in almost every case you increased the salaries of officers of the Government, and wasted, I fear lavishly, much of the money of the people at the outset of this war. We were driven to the use of paper money; we have to resort to it now; we must depend upon it; we cannot get along without it. All we can do is, in making use of this paper money, to throw around it all the guards and checks possible, to make the amount issued as small as possible, and to drive out of circulation that which tends to depreciate and destroy its value.

There can be no doubt about the power of Congress on this subject; and in order to fortify my opinion, and show that the whole question has been examined by much wiser men, I will read an extract from the report of Mr. Dallas, in December, 1815. I read this short extract to show that never has the exclusive power of Congress over the currency been denied even by those gentlemen who were in favor of gold and silver as the standard of all values. Mr. Dallas, in his famous report made in December, 1815, says:

"By the Constitution of the United States, Congress is expressly vested with the power to coin money, to regulate the value of domestic and foreign coins in circulation, and (as a necessary implication from positive provisions) to emit bills of credit; while it is declared by the same instrument, that 'no State shall coin money, or emit bills of credit.'" * * * * "The constitutional authority to emit bills of credit has also been exercised in a qualified and limited manner. During the existence of the Bank of the United States, the bills or notes of the corporation were declared by law to be receivable in all payments to the United States; and the Treasury notes, which have been since issued for the services of the late war, have been endowed with the same quality." * * * *

"The constitutional and legal foundation of the monetary system of the United States is thus distinctly seen; and the power of the Federal Government to institute and regulate it, whether the circulating medium consist of coin or of bills of credit, must, in its general policy, as well as in the terms of its investment, be deemed an exclusive power. It is true, that a system depending upon the agency of the precious metals will be affected by the various circumstances which diminish their quantity or deteriorate their quality. The coin of a State sometimes vanishes under the influence of political alarms, sometimes in consequence of the explosion of mercantile speculations, and sometimes by the drain of an unfavorable course of trade. But, whenever the emergency occurs that demands a change of system, it seems necessarily to follow that the authority which was alone competent to establish the national coin, is alone competent to create a national substitute."

These extracts from a document of great ability state the whole question in a few words.

Congress has the power to regulate commerce; Congress has the power to borrow money, which involves the power to emit bills of credit; Congress has the power to regulate the value of coin. These powers are exclusive. When, by the force of circumstances beyond our control, the national coin disappears, either from war or from other circumstances, Congress alone must furnish the substitute. No State has the power to interfere with this exclusive power in Congress to regulate the national currency, or, in other words, to provide a substitute for the national coin.

The question then, Mr. President, is not between coin and paper, because I have shown that we cannot resort to coin. The question is between a national currency and a currency issued by State corporations, or a mixture of both. Now, I wish to state very briefly the objections to local banks; and I am here bound to say that I have always been friendly to banks, and am now interested in a bank.

The objections to local banks are obvious. Senators will recognize them and feel their force when I state them. The first is the great number and diversity of bank charters. There are sixteen hundred and forty-two banks in the United States, established by the laws of twenty-eight different States, and these laws are as diverse, I was about to say, as the human countenance. They are established upon various bases. We have the State bank system with its branches. We have the independent system, sometimes secured by bonds, sometimes State bonds, sometimes by real estate, sometimes a mixture of both. We have every diversity of bank system in this coun-y that has been devised by the wit of man, and l these banks have a power to issue paper money, mpeting daily with the national currency. With is multiplicity of banks, depending upon differ-t organizations, it is impossible to have a uni-rm national currency, for the value of our na-nal currency is constantly affected by the issues this multitude of State banks. There is no mmon regulator; they are dependent on differ-t systems. The clearing-house system adopted the city of New York, only applies to that city. cannot be effective when extended over a great gion of country. There is no check or control er these banks. There is a want of harmony d concert among them. Whenever a failure curs, such as that of the Ohio Life Insurance d Trust Company, it operates like a panic in a sorganized army: all of them close their doors once and suspend specie payments.

There is another objection to these local banks, and it is one which we cannot disregard, and that is their unequal distribution among the States. In New England the circulation of the banks is now about $50,000,000, while in Ohio, a State with three fourths of the population of all New England, it is but $9,000,000. When you make the contrast with other States, it is still more marked. We, in the West, are now using the paper money of the New England and New York banks, and we are paying to the East the interest on $40,000,000, which we would much rather, in these times of difficulty, pay to the United States. The western people would be better satisfied now if they had the notes of the United States instead of the $40,000,000 of eastern bank bills that are circulating among them. According to a recent statement, which I have before me, the circulation of banks in the eastern States has now reached about $130,000,000; and of that amount one third is computed to be in the western country. I have no doubt that we are now circulating in the West $40,000,000 of paper money issued by the banks of the East. Much of it seeks the West as a medium of exchange for our agricultural productions. We are using this money, and the banks are deriving a profit of the interest on that money. If this paper was driven out of circulation, and the United States notes should fill the vacuum, it would make a contribution to the Treasury of the United States of $2,400,000, for the mere interest of a currency which we do not prefer, but are now compelled to use because it it circulated among us.

The losses to the people by counterfeiting never can be avoided when you have such a multitude of banks. It requires now skilled experts to detect counterfeits. People have made this business of counterfeiting so perfect that it is difficult for the best experts to detect them; it now depends as well on the general appearance of the holder as of the note. When a stranger presents a bank bill for circulation, the person about to receive it looks rather at the man who presents it to see whether his face is honest, than at the bill to detect whether it is counterfeit or not. It is impossible to avoid counterfeiting, or to provide guards against it. Bank experts may save the banks, but the loss still falls upon the people. You cannot prevent the people from suffering largely from counterfeiting when you have sixteen hundred different banks, issuing each of them several different kinds of bills, under the laws of twenty-eight different States. On the other hand, by the substitution of the national currency we substantially lose noth-

ing by counterfeiting. When the notes are few in kind, only three or four of them, all issued by the United States, all of a uniform character, they cannot be counterfeited, because their face will become so familiar that every man will know a genuine note; he will detect it in a moment as the countenance of a familiar friend. But when he has to decide on the issues of sixteen hundred banks, how is it possible for an ordinary citizen to detect the counterfeit?

The loss to the people of the United States by broken bank bills is computed to be equivalent to five per cent. of the entire issue. Every twenty years it is supposed that the entire bank circulation ceases to exist or deteriorates. Some banks pass through the storm and their notes are good, but probably two or three are successively scattered as wrecks along the wayside, until it is now computed by intelligent bankers that the loss to the people of the United States, over and above the loss of interest, by the simple process of broken bank bills, is five per cent. per annum. This cannot be guarded against by all your laws. Why, sir, when the system of free banking was established in the western country, all those who were friendly to banks, and I was among them, said "now we have a stable issue; we have bank bills based upon the bonds of the States, and it is not possible that these bonds will ever deteriorate in value and the people lose money." And yet, sir, within two years from the establishment of this system, by the depreciation of the bonds of the States, or by fraud, these notes became depreciated, and in some cases were of no value whatever. In some cases the bonds were abstracted; in some cases frauds were committed by bank officers. From some cause or other these notes that we all supposed to be upon a stable basis disappeared like snow before the summer's sun. The people are constantly losing by them, and you cannot by the wisdom of man guard against the frauds and peculations, the genius of rascality to which men sometimes engaged in this business resort. I wish to cast no reflection whatever on persons engaged in banking, but naturally rogues will resort to this business because it is one in which they may sometimes by deception issue worthless promises to pay without punishment or exposure.

The loss of exchange by local currency is very great. Ordinarily, the exchange from the West to the East is one per cent. This loss is usually made a gain to themselves by the bankers and shavers. The suction of this class of people is equivalent to one per cent. of the circulation. In the western country you cannot buy a draft without paying this exchange; and I have known it as high as ten per cent. This difference of exchange is a common cover for usurious interest. Plain farmers wishing to borrow money are required to draw drafts on New York, by which contrivance they pay usurious interest. All this exchange is a loss to the people. Even in the most favorable time, in a favorable state of trade between the East and the West, an exchange of one per cent. is demanded for drafts and bills of exchange, simply because the notes of the East are worth more than those of the West. But if you had a national currency, uniform and equal throughout the country, the cost of exchange to the people would only be the cost of transfer from one portion of the country to the other. From Cincinnati to New York it would be only one tenth of one per cent., and it could not be higher if the only basis of exchange was gold and silver, or the paper money of the United States, which can be transferred from one section to the other for from one tenth to one eighth of one per cent.

There is a still more serious objection to this paper money. With a system of local banks there is no power to control over-issues and consequent depreciation of currency. By enlarging the volume of currency, it depreciates the value of United States notes; and even now, when the United States have issued $250,000,000 of notes, the banks have increased their circulation. Why? Because they can make money by its increase, and that consideration will always control private individuals. We cannot say that it would not control us; if we had the legal authority to issue money, and found that we could make money by the issue, we should find reason enough for issuing it. Men will always be governed by their interests.

I have before me a table which has been carefully prepared, showing that on the 1st of January, 1862, in the loyal States, there was a circulation of $129,000,000. Now it is $167,000,000. What power have you over this? How can you prevent this increase? You cannot do it except by taxation. The banks are governed by the local laws of the States in which they are situated. Those local laws are beyond your power; you have no way to reach them except by a system of taxation. They may go on making this increase from $167,000,000 to $500,000,000, until all the values in this country are destroyed, depending upon a baseless issue, the redemption of which you cannot guaranty. I have here, from the Bankers' Magazine, a statement showing where

this large increase has occurred. In the city of New York there has been an increase, since the 1st of January, of $19\frac{63}{100}$ per cent.; in the State of Massachusetts there has been an increase of $41\frac{94}{100}$ per cent.; in the State of New Hampshire there has been an increase of $27\frac{5}{100}$ per cent.; in the city of Philadelphia there has been an increase of $138\frac{30}{100}$ per cent., until the sagacity of the bankers began to notice the increase and suspected the money of the banks issuing the large increase. In the western country, for local reasons that I need not mention, on account of the existence of the limitations in the charters of the banks of Ohio and Indiana, this increase has not gone on so rapidly; but even in Ohio there has been an increase, and a considerable increase, of the paper money.

And, sir, the system of local bank paper destroys all hope of a national currency, and defeats a plain provision of the Constitution. It is difficult to resist the conviction that notes issued by State corporations are bills of credit prohibited by the Constitution of the United States. I know that these banks have existed for long years, have been acquiesced in, and have been regarded as established constitutionally by the States; I therefore shall not give my own opinion merely, but shall fortify it by the history of the clause of the Constitution forbidding States to emit bills of credit; I shall show you that it was the intention of the framers of the Constitution to destroy absolutely all paper money, except that issued by the United States. In the Constitution as originally framed, the States had power to emit bills of credit and to make them a tender in payment of debts *if Congress would consent*. The prohibition was not absolute. That was the condition of the draft of the Constitution on the 28th of August, 1787, when it appears from the Madison Papers that—

"Mr. Wilson and Mr. Sherman moved to insert, after the words 'to coin money,' the words, 'nor emit bills of credit, nor make anything but gold and silver coin a tender in payment of debts;' making these prohibitions absolute, instead of making the measures allowable, as in the thirteenth article, *with the consent of the Legislature of the United States.*

"Mr. Gorham thought the purpose would be as well secured by the provision of article thirteen, which makes the consent of the General Legislature necessary; and that in that mode, no opposition would be excited; whereas, an absolute prohibition of paper money would rouse the most desperate opposition from its partisans.

"Mr. Sherman thought this a favorable crisis *for crushing paper money*. If the consent of the Legislature could authorize emissions of it, the friends of paper money would make every exertion to get into the Legislature in order to license it.

"The question being divided—on the first part, 'nor emit bills of credit:'

"New Hampshire, Massachusetts, Connecticut, Pennsylvania, Delaware, North Carolina, South Carolina, Georgia, aye—8; Virginia, no—1; Maryland, divided.

"The remaining part of Mr. Wilson's and Mr. Sherman's motion was agreed to, *nem. con.*"

Now, Mr. President, I show you here that this prohibition was made absolute after consideration and debate, and upon the distinct ground that it was important to crush paper money; and therefore the States were forbidden, under any circumstances, to emit bills of credit. The same debate shows that it was considered that the United States had the power to emit bills of credit under the general authority to borrow money. That is undoubtedly true. Where an authority is conferred to borrow money, the securities for that money may be issued in any form that the Legislature prescribes; and the States, under their general authority to borrow money, could emit bills of credit but for the positive prohibition contained in the Constitution against that emission. Thus I show you, sir, that in the outset of this controversy it was the intention of the framers of the Constitution to prohibit all paper money, and to allow none whatever unless it was issued by Congress under the power of borrowing money.

I will read also an extract from Story on the Constitution, to show his view of this subject. In the third volume of his Commentaries, in discussing this provision of the Constitution, Mr. Story says:

"The prohibition to 'emit bills of credit' cannot, perhaps, be more forcibly vindicated than by quoting the glowing language of the Federalist, a language justified by that of almost every cotemporary writer, and attested in its truth by facts from which the mind involuntarily turns away at once with disgust and indignation. 'This prohibition,' says the Federalist, 'must give pleasure to every citizen in proportion to his love of justice, and his knowledge of the true springs of public prosperity. The loss which America has sustained since the peace from the pestilent effects of paper money on the necessary confidence between man and man, on the necessary confidence in the public councils, on the industry and morals of the people, and on the character of republican government, constitutes an enormous debt against the States, chargeable with this unadvised measure, which must long remain unsatisfied, or rather, an accumulation of guilt, which can be expiated no otherwise than by a voluntary sacrifice on the altar of justice of the power which has been the instrument of it. In addition to these persuasive considerations, it may be observed that the same reasons which show the necessity of denying to the States the power of regulating coin prove with equal force that they ought not to be at liberty to substitute a paper medium instead of coin.'"

Again he says:

"It was, therefore, the object of the prohibition to cut up

the whole mischief by the roots, because it had been deeply felt throughout all the States, and had deeply affected the prosperity of all. The object of the prohibition was not to prohibit the thing when it bore a particular name, but to prohibit the thing whatever form or name it might assume. If the words are not mere empty sounds, the prohibition must comprehend the emission of any paper medium by a State government for the purposes of common circulation."

I have one or two other authorities to show that it was the intention of the framers of the Constitution to destroy entirely this system of paper money issued by States; but the general principle is laid down sufficiently by Mr. Story.

Now, the question occurs, if the States cannot emit bills of credit, can the States authorize corporations to do it? Can a State authorize that to be done by another which it cannot do itself? Is not paper money issued by a State corporation a bill of credit? Certainly it is a promise to pay on demand, issued, and intended to be issued, as paper money, to be circulated as money. Its whole existence is based upon the authority of the State government. It only claims this exclusive franchise by virtue of an act of the State Legislature. Now, I ask, can a State authorize a corporation of its citizens to do that which it cannot in its own power do itself? Why, sir, the thing is absurd; but by universal acquiescence—a phrase which I catch from the honorable gentleman from Maine [Mr. Fessenden]—this infringement has been passed along *sub silentio*, until these banks have grown into a formidable power, and now wield, in conjunction with the United States, the dangerous power of making paper money. In ordinary times, when the national currency was gold and silver, and all the operations of the Government were carried on in gold and silver, and these banks were mere agencies of the people to carry on their private transactions, it would not have been wise to interfere with them; but now, when it is necessary for Congress to resort to all the powers conferred upon it; when the country is involved in a war which may task its energy and resources for years; when it is necessary to use every power to the very verge of the Constitution, I ask, shall we allow our currency and our national system to be deranged and disorganized by that which the framers of the Constitution believed they had guarded against by a positive prohibition?

Mr. President, I read from orthodox authorities. I will now read from Mr. Webster to show his opinion on this subject, and I think there is no language anywhere, by any writer, stronger than his upon this subject. Mr. Webster discusses this whole question of the national currency at great length, in a speech delivered by him in the Senate on the 25th of May, 1832; a speech, I need not say, of wonderful power, because he never made any other, so far as I have read any of them. He says, in the first part of his speech:

"A sound currency is an essential and indispensable security for the fruits of industry and honest enterprise. Every man of property or industry, every man who desires to preserve what he honestly possesses, or to obtain what he can honestly earn, has a direct interest in maintaining a safe circulating medium; such a medium as shall be a real and substantial representative of property, not liable to vibrate with opinions, not subject to be blown up or blown down by the breath of speculation, but made stable and secure by its immediate relation to that which the whole world regards as of a permanent value. A disordered currency is one of the greatest of political evils. It undermines the virtues necessary for the support of the social system, and encourages propensities destructive of its happiness. It wars against industry, frugality, and economy; and it fosters the evil spirits of extravagance and speculation. Of all the contrivances for cheating the laboring classes of mankind, none has been more effectual than that which deludes them with paper money. This is the most effectual of inventions to fertilize the rich man's field by the sweat of the poor man's brow. Ordinary tyranny, oppression, excessive taxation, these bear lightly on the happiness of the mass of the community, compared with a fraudulent currency and the robberies committed by depreciated paper. Our own history has recorded for our instruction enough, and more than enough, of the demoralizing tendency, the injustice, and the intolerable oppression on the virtuous and well disposed, of a degraded paper currency, authorized by law, or in any way countenanced by Government."

That is what he says speaking of the ordinary bank circulation then afloat in the country. He says further, on the very point I am now discussing:

"It is further to be observed that the States cannot issue bills of credit; not that they cannot make them a legal tender, but that they cannot issue them at all. Is not this a clear indication of the intent of the Constitution to restrain the States, as well from establishing a paper circulation as from interfering with the metallic circulation? Banks have been created by States with no capital whatever; their notes being put into circulation simply on the credit of the State, or the State law. What are the issues of such banks but bills of credit issued by the State? I confess, Mr. President, that the more I reflect on this subject, the more clearly does my mind approach the conclusion that the creation of State banks for the purpose and with the power of circulating paper, is not consistent with the grants and prohibitions of the Constitution."

With this authority, sustained by the history of this clause, I am willing to stand upon the affirmation, notwithstanding the long acquiescence of our people, that banks of circulation authorized by the States are unconstitutional, and should

be dispensed with. But whether this is so or not, even if the long acquiescence of our people has given them the form and sanctity of legal authority, yet there is no doubt of the proposition that these banks hold their franchise upon the same tenure that people hold their property, and all of them are subject to the power of taxation in Congress necessary to maintain and support this Government in the darkest hour of its history. Therefore if I can see that the gradual reduction or withdrawal of this paper money, done in a way least to injure the interests of the banks and of private citizens, may strengthen the arm of this Government; may give us a sound national currency; may promote the national weal, I would not hesitate a moment. I have shown you that Congress has guarded the interest of the banks; that it has exempted them from the heavy taxation imposed on other people; that they have been selected rather as favored daughters of the revenue law than as those who have gradually usurped the powers conferred only on Congress. Now, sir, it is necessary to tax these banks; to warn them that their circulation must not be increased, but must be withdrawn. If they do not heed that warning, then I am willing to put them on the same footing that I now put fractional issues—illegal issues, confessedly so, by the laws of the States and the United States. I would prohibit them entirely by a taxation which will suspend their franchise. I do not think, as legislators, we ought to do that by hasty acts; but we can and should make this process of withdrawal gradual. A tax will indicate the policy adopted by Congress.

I know it has been said that if you drive out of circulation bank bills, you will disturb all the business relations of the States. I do not think so. The whole bank issue, as I have shown you, was $167,000,000 in November. That is not two sevenths of the loans of the banks. This circulation could be gradually withdrawn, and the vacuum could be filled with the United States notes without creating a ripple upon the surface. By this withdrawal you would get rid only of those banks which are weak and unable to carry on the banking business without this circulation. Why, sir, if you take from these banks the power to issue notes for circulation, do you not leave them all their property? Have they not their capital intact? Have they not the power to carry on the business of exchange and deposit, and all the ordinary and usual functions of bank agencies? Do you take anything away from their property? Not at all. You merely take away from them a franchise, in the nature, it is true, of property; but a franchise the deprivation of which will be of more service to them, and certainly to the General Government, than its value can be. Why, sir, if these banks would put their business upon the same footing as private individuals, they would gain more than they would lose. If I owned any bank of issue in this country, I would at once withdraw its circulation, and stand upon the same privileges and the same business relations that private individuals do, claiming nothing from corporate privileges. Then the business of bankers would stand like the business of other people. It is easy now to excite a prejudice against banking. Why? Simply because the business itself is in the nature of an exclusive privilege granted only to a select few, always sought for under acts of the State Legislature; but if you put the business of banking on the same footing as you do manufacturing or any other employment in life, the same footing on which you put the practice of the law, or any other profession, leave it open to all, and confine it to its legitimate operations, you would remove all the prejudice against the business. Then banks would do here as they do in Europe: they would carry on the exchanges of the country; they would issue their certificates and commercial paper; they would aid commerce without usurping or exercising any of that authority which can safely be conferred only upon the Government at large.

It is sometimes said that the experience of other countries has shown that banks of issue are necessary. Why, sir, it is not so. The Bank of England consists of two distinct departments; as distinct as two departments can be. The one does the business of banking proper, buys and sells notes, discounts bills, issues bills of exchange and certificates of deposit, receives deposits, and carries on all the operations of the bank; the other department, distinct and separate, controlled by law, issues notes of circulation; and those notes of circulation are based entirely upon Government securities and gold and silver. It is nothing more nor less than this: that one department of the Bank of England is an agency of the people of that great kingdom to issue the notes of the Government; and that is all they are. Every Bank of England note is the note of the Government, for it is based upon the credit of the Government and upon gold and silver coin. It is regulated and controlled and changed and altered by the Government. It is the agency of the Government. In most of the other

countries of Europe at present, gold and silver are the basis of all transactions, and there is no difficulty in carrying on the largest operations. It is only when a people are compelled to use unusual resources, when they are compelled to resort to their credit in a time of great national emergency, it is then only that paper money is resorted to in Europe or is justified in this country.

There is a still more potent reason, Mr. President, why this should be adopted. We should all of us look forward to the time when peace shall again bless us. Although this war must be continued to maintain the national honor, and I trust the flag will never be lowered while there is a rebel in any part of this country, yet we all hope for peace; we look forward to that good time when all our friends and kindred shall be again resuming the ordinary occupations of life at home, and in peace. When that good time comes, if there are no notes outstanding except the notes of the United States, they would be at once converted into bonds, and then we have again the national currency of gold and silver coin. But, sir, if you allow your country during this war to be flooded with this paper money, when peace comes it will be like the peace with Great Britain in 1815—it will only bring to us a commercial war, in which all our interests will be involved; the people will be left with this immense paper issue upon their hands without remedy, and they will be compelled to lose the whole of it.

If there was no money in this country but United States bank bills, the process of funding would be going on day by day. Whenever there was too great accumulation of these bills they would be converted into bonds; the operation would go on quietly and silently. Sir, I say, by the authority of the Secretary of the Treasury, that it is his deliberate judgment, after watching this process with all his conceded ability, that but for the influence of this local bank paper he would be able to carry on this war without the issue of more paper money; that the currency now outstanding, and that which by law he is authorized to issue, would be sufficient to carry it on. Such a currency would lead to the conversion of the notes into bonds, and by this process the people would absorb a national loan and enable him to carry on this Government without any sacrifice to them.

Mr. President, you can see that the effect of local paper money is to prevent this process. What are the United States notes? They are based upon the credit of the whole people; they are of general authority; they are receivable in payment of all public debts; they are made a legal tender in payment of private debts; they may be converted at any time into six per cent. bonds; they may be temporarily deposited on interest. They have all the privileges, all the securities which the faith of a great nation can give to them. They are eagerly sought for, everywhere taken. They are only driven out of circulation by the superabundance of an inferior issue. We know it is a principle in finance, that wherever there is an inferior currency, that will fill all the channels of circulation, and the superior will be hoarded. Why are gold and silver now hoarded? Because they are worth more than paper money. Why is United States paper money hoarded? Because it is worth more intrinsically than the local paper of the banks, which, after all, has only a local security and a local interest. It therefore is hoarded; and now all the channels of commerce are filled by this currency, which the laws of the United States forbid the Secretary of the Treasury from taking in payment of public dues. If a patriotic citizen now desired to aid the Government with a loan of $5,000, he would have to sell at a discount or exchange the local currency which he has in his hands for United States paper, in order to enable him to loan that paper to the Government. I give it as my conviction, aided and supported by that of the Secretary of the Treasury, that but for this intermediate currency the gradual absorption of the national debt by the common people of this country—the farmers, the men scattered all over our country—would go on rapidly and satisfactorily, sufficiently so, I think, to carry on the operations of the Government.

It may be supposed that the conflict between local bank paper and United States notes is imaginary, or of modern origin. Now, sir, to prove that I am not either original or peculiar in the views expressed, I wish to read from the writings of an eminent statesman, who certainly was not in favor of paper money. My idea upon this subject is exactly according to his, years ago; and when I read these extracts from Mr. Jefferson, you will perceive that he, who during his whole life was so mindful of the rights of the States and so jealous of paper money, in brief and terse language designated the only way in which our country can carry on war; and that is the very way I have indicated in my remarks. I will read two or three extracts from the writings of Mr. Jefferson. In his letter to Mr. Cooper, dated September 10, 1814, just at the close of the war, he says:

"The banks have discontinued themselves. We are now

without any medium, and necessity, as well as patriotism and confidence, will make us all eager to receive Treasury notes, if founded on specific taxes.

"Congress may now borrow of the public, and without interest, all the money they may want, to the amount of a competent circulation, by merely issuing their own promissory notes of proper denominations for the larger purposes of circulation, but not for the small. Leave that door open for the entrance of metallic money." * * * *

"Providence seems, indeed, by a special dispensation, to have put down for us, withou a struggle, that very paper enemy which the interest of our citizens long since required ourselves to put down, at whatever risk.

"The work is done. The moment is pregnant with futurity, and if not seized at once by Congress, I know not on what shoal our bark is next to be stranded. The State Legislatures should be immediately urged to relinquish the right of establishing banks of discount. Most of them will comply, on patriotic principles, under the convictions of the moment; and the non-complying may be crowded into concurrence by legitimate devices."

Remember, this was written at a time when this local bank paper had become almost worthless; when it was worth far less than any local bank paper now is.

Again, in a letter dated March 2, 1815, he says:

"But the circumstances of the war draining away all our specie, all these banks have stopped payment, but with a promise to resume specie exchanges whenever circumstances shall produce a return of the metals.

"Some of the most prudent and honest will possibly do this; but the mass of them never will or can. Yet, having no other medium, we take their paper, of necessity, for purposes of the instant, but never to lay by us.

"The Government is now issuing Treasury notes for circulation, bottomed on solid funds, and bearing interest. The banking confederacy (and the merchants bound to them by debts) will endeavor to crush the credit of these notes; but the country is eager for them, as something they can trust to, and so soon as a convenient quantity of them can get into circulation, the bank notes die."

I will also read another extract to show that this matter filled the mind of Mr. Jefferson. He says:

"Put down the banks, and if this country could not be carried through the longest war against her most powerful enemy, without ever knowing the want of a dollar, without dependence on the traitorous classes of her citizens, without bearing hard on the resources of the people, or loading the public with an indefinite burden of debt, I know nothing of my countrymen. Not by any novel project, not by any charlatanry, but by ordinary and well experienced means; by the total prohibition of all private paper at all times, by reasonable taxes in war, aided by the necessary emissions of public paper of circulating size, this bottomed on special taxes, redeemable annually as this special tax comes in, and finally within a moderate period, even with the flood of private paper by which we were deluged, would the Treasury have ventured its credit in bills of circulating size, as of five or ten dollars, &c., they would have been greedily received by the people in preference to bank paper."

Mr. President, I have shown you that under circumstances very similar to ours, when the banks had suspended specie payments, when the disparity between gold and silver and paper money was getting marked, Mr. Jefferson, in his retirement at Monticello, in private correspondence with his friends, with great sagacity pointed out the very mode to which we must now resort if we would maintain a national currency. We have already our United States notes precisely of the character stated by him, based upon taxes, based upon the credit of the United States. We have thrown around them all the guards possible. We have done just as he says we ought to have done. All that remains for us is by wise measures to induce the withdrawal of the local bank circulation of the country, not by an arbitrary edict striking them dead or deranging the currency of the country, but by a tax, reasonable and moderate in itself, to be increased if policy dictates; by a tax that will at once drive out of circulation all fractional currency. This policy will confine the banks to that ordinary business of banking known among all the commercial nations of the world. If this is done by moderate and wise legislation, as Mr. Jefferson truly says, we may maintain this war until our flag floats from Louisiana to Maine, in every portion of our beloved country.